ALBANIAN BOTANICALS TECHNICAL ASSISTANCE REPORT

Albania Private Forestry Development Program

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A. Introduction

Between April 10 and May 5, 2000 the author conducted a short-term technical assistance (STTA) mission to assist in NTFP development in the botanicals sector. During this visit, we visited the Korca and Shkoder areas and presented workshops in these two cities and in Tirana. We also visited and interviewed rural entrepreneurs from throughout Albania.

B. Findings

B1. Business Climate

Transition to a market economy. Albania is making a difficult transition from a state economy with centralized control to a market economy. This is occurring at a time when the botanicals market is more dynamic and volatile than any time in recent history. Dealers in Albania are anxious to deal directly with overseas buyers, but will need to develop their facilities, skills and resources to realize this goal.

Volatile market has harmed Albanian businesses. Albanian dealers have been caught with many tons of herbs in their warehouses and no market. The worst accumulations are in black and red juniper berries and especially Hypericum. There is no hope in sight for Hypericum, and dealers, responding to requests from their buyers, collected material that does not meet international specifications. Even when — and if — the market recovers, the Hypericum currently in warehouses will likely be difficult to market. The international market requires flowering tops with around 10-15 cm of stem. Buyers in Albania have specified 20, 25 and even 70 cm, according to dealers. The only market for this material is for low quality products with no demonstrated clinical utility.

Investment in supply chain is promising. Some dealers have continued to buy from harvesters, even though they have no market. They say they do this to keep the harvesters from abandoning the market. When the market improves, their supply chain will still be intact and harvesters will have loyalty to those who protected them when the market was bad. This shows good long-term thinking but must be done carefully.

B2. Networks

Well-established supply chain. Albanian dealers appear to have good access to harvesters and effective means of communicating their needs and prices to them. Harvesters are said to be responsive to specifications of dealers

Several models. Dealers buy from contractors, also called collectors or directly from harvesters. Some have their own trucks that visit harvester villages, while others receive herbs at their warehouses. Most utilize more than one method to procure herbs from the harvesters.

Dealers possess variable quality knowledge. In general, dealers are knowledgeable about quality fundamentals. Most can select high quality and some have experience selling multiple grades, especially in sage. However, knowledge of proper handling and warehousing is an area for improvement. Dealer knowledge is not the major contributing factor to the marginal international reputation of Albania as a quality supplier. Rather, in most cases, low price has been the niche assigned to Albania by major exporters in Albania and international buyers.

Few direct exporters. We found only three companies that export directly, two of which are Albanian companies, both small. Many dealers want to access international markets. For many reasons detailed later, this will require more business development to create truly competitive companies.

B3. Facilities

Warehouses variable. There is a high degree of variability in the warehousing of herbs in Albania. Conditions in this season should be at their best, as the majority of collection and warehousing occurs in the summer.

Most need basic QC procedures. Some dealers have areas outside their warehouses where herbs are dried on plastic sheets, fiberboard and other materials. Drying areas and procedures could be improved producing the potential for major improvements in quality and appearance. Warehouses usually lack some basic features for preventing infestation or contamination. Windows are not screened or closed, doors are left open, materials being dried appear not to be turned often enough to facilitate rapid drying, and the drying areas lack adequate ventilation to speed drying. Perimeters for insect and rodent control are not maintained inside between warehouse walls and bags of herbs, or outside the walls.

Quality management training. Most of the deficiencies in handling and storage of botanicals can be solved through training in quality management procedures and policies. With adequate follow-through, dealers can improve dramatically these conditions and procedures to meet international standards. Little capital investment is needed.

Insect, rodent and microbial control lacking. The most important changes in handling and storage procedures and facilities are those that can reduce the likelihood of contamination by insects and rodents, and lower the bioburden — the levels of microbes including yeast, molds, and bacteria.

B4. Post Harvest Handling and Processing

Drying. Harvesters deliver most herbs to the warehouses or collection points already dried. It is unknown under what conditions they are handled and held prior to collection from the collection points or prior to purchase from contractors.

- *In warehouses.* Some herbs are received at warehouses undried or inadequately dried. Most warehouses have herbs spread out on the floors drying, and dealers know they must turn them to prevent mold from destroying the crop. However, in many cases, drying herbs were not spread thinly enough to allow rapid drying. Beneath the surface, the herbs were damp and, in some cases, visibly moldy.

- *In yard of warehouse.* Some dealers have areas outside the warehouse in which to spread out herbs for further drying. Some of these were fenced and supervised and with minimal improvements, could be upgraded to meet more advanced quality guidelines.

Concerns. As detailed above, the major concerns in terms of drying and storage are in these categories:

- Inadequate airflow
- Improper drying techniques
- Moisture control
- Microbial control

Selection and specifications. Dealers are aware of the need for selection — or hand cleaning — of material received from harvesters. All dealers do this selection process, either in their facilities or by outsourcing to subcontractors, usually women in the community, who are paid either by weight or time to select and clean the herbs. Some of these subcontractors also do additional drying in their homes or yards.

B5. Policy and Private/Public Interests

Government expertise. The Directorate General of Forests and Pastures (DGFP) is attempting to regulate the collection of Albanian wild plants for environmental conservation and to assure appropriate resource utilization. Non-timber forestry products is a specialized area in which DGFP appears to be working to increase its expertise. Presently, industry members are skeptical of the level of both expertise and accurate data in this sector.

Data presented at workshops in Albania were challenged by those in the trade. As an example, government figures show virtually no exports during 1997, based on records from customs. Some dealers reported that 1997 was not a bad year for sales or exports, but because of chaos in the government, customs does not have accurate data for this period. Additionally, the dealers believe they have a better understanding of the available botanical resources than does the DGFP.

Government policy. Licensing policies appear to work at cross purposes:

- Revenue generation
- Information gathering
- Environmental conservation
- Expense is a disincentive to register
- Dealers asked to have license to collect and to export, but they do neither

The main functions of these licensing policies are to collect information, control access to limited resources and register those collecting from the forests. Dealers expressed concern that they need a license to collect herbs and to export them, though they do neither. They complain that there is duplication in registration and licensing, with a combination of different agencies requiring seven separate registrations for a single activity.

Enforcement inadequate. Dealers also claim that there is no enforcement, and many simply do not register. Those who do register often find that there is no protection of their right to harvest in a certain area. Government officials note they have inadequate staffing to enforce their policies.

Overlapping jurisdictions. DGFP, customs and local authorities all have registration and fee procedures, creating confusion.

C. Conclusions

C1. Global Market Trends

Market is expanding. The market growth for botanicals in the United States is estimated at 9-11 percent annually during the next three years.

Growth has slowed. Prior growth rates of up to 25 percent are not expected to return, but the industry is not in decline except in certain product areas. Overall, good opportunities remain in the herb sector.

Past trends continue — wellness, anti-aging, predictable health needs from demographics. It is important to distinguish trends from fads. Fad products usually have short product life cycles, and those who produce for these categories need to be quick to change into other production as soon as the fad shows signs of faltering. On the other hand, there are durable trends in self-care with botanicals and some stable botanical markets. The median age in the United States is increasing dramatically as the "baby-boomers" reach retirement age. This is driving strong sales in herbal products for menopause, prostate enlargement, products to maintain healthy eyesight and heart function, and anti-aging products. In the non-medicinal area, there are stable markets such as those for licorice root in tobacco products and gentian roots in bitters.

New trends are promising. The increasing trend toward self-care will continue to expand the dietary supplement market, requiring increasing quantities of currently popular botanical ingredients. There is also a need for new botanicals, as "new" discoveries in the herbal area are always popular.

Competition is tougher. Worldwide, there are millions of small farmers and harvesters looking for lucrative crops. Competing in this sector requires market awareness and an ability to find and capitalize on unique competitive advantages.

C2. Consolidation Has Strengthened Big Buyers

Mergers and acquisitions have reduced the numbers of competing herb buyers. The largest of these was the acquisition by the world's largest herb company, Germany's Martin Bauer GmbH, of its major competitor Paul Muggenberg GmbH. Both companies were already powerful buyers capable of substantial influence on markets and prices. This consolidation also affected the extract market, as Planta Extract, Finzelberg and Muggenberg extracts are all now owned by Martin Bauer. This and other mergers and acquisitions are listed below.

Recent mergers and acquisitions of herbal companies:

- Global Health/American Ingredients, October 1998
- Martin Bauer/Muggenbert, October 1998
- Hauser/Botanicals International, December 1998
- Amway/Trout Lake, December 1998
- Arcopharma/Health from the Sun, March 1999
- A.M. Todd (Folexco)/East Earth Her, April 1999
- Zand Herbal/Herbs for Kids, May 1999
- Tom's of Maine/Green Mt. Herb, May 1999
- Martin Bauer/American Ingredients, June 1999

C3. Communication Has Opened Markets

Increased access to electronic communications has made it ever easier for companies of all sizes to communicate directly with buyers. This has resulted in a challenging situation for traders, as many medium and even small enterprises no longer need intermediaries to reach international markets.

C4. Market Is More Scientifically Sophisticated

The botanicals market has matured in many ways. Among them is increased testing of herbal products for potency as measured by marker compounds. This increases the demands on suppliers to provide material in compliance with international and corporate standards. Incoming purchase samples often go directly to the lab for advanced testing, not only of contaminants such as pesticide residues, but also of chemical markers of activity.

C5. Buyer Specifications Are Stricter

In many cases, purchase price is now dependent on meeting specifications. For example, buyers may offer a different price for *Hypericum* based on hypericin content, the relevant marker compound.

Actives and markers. Only a few herbs are standardized to known active principles (e.g. Sennasides are the active laxative principles in senna leaf and pod). Most herbs that are sold in standardized form are analyzed for “markers;” chemical compounds that assure that the right part of the right plant has been picked, but not necessarily compounds directly responsible for the herb’s activity. Hypericin is an example. Specifications require that a certain level of hypericin be present, but research shows that it is not the active principle in *Hypericum*.

Moisture and oils. Buyers may also deduct from the purchase price for moisture content in excess of specification, or for low volatile oil content.

Buyers want purity but may not want to pay. Some buyers now have extremely strict specifications, for example requiring pesticide levels to be below the limit of detection by analytical labs. This can only be achieved by growing without the use of pesticides, yet the buyer may not be willing to pay for a certified organic source.

C6. Diverse Buyers and Marketers With Different Quality Needs

In contrast to the above, there is also a market for lower quality products or less strictly controlled specifications. This is due to the range of markets and companies in the botanicals business. Some simply want a certain tonnage of an herb meeting basic, simple quality standards.

C7. Multiple Industries — Food, Drugs, Spices, Phytomedicinals

In considering the “botanicals market” it is important to consider the diversity of uses of these plants. The same plant material may find its way into many different channels of distribution. This makes it quite challenging to track the markets. However, it also creates multiple opportunities. An example is the well-established mint industry in the United States. Mint growers track the prices of both dried mint and mint oils, and adjust their production accordingly. When the mint is harvested, it can be either dried or steam-distilled to produce oil, whichever is most lucrative.

C8. Dealers Are Not Currently Ready to Compete Directly on International Markets

Many Albanian herb dealers are anxious to become direct herb exporters. They perceive correctly that there is greater profit potential for direct exporters, but often fail to appreciate the challenges and risks taken by export companies. The major constraints in developing existing companies into stable and successful exporters are:

- Business skills
- Language skills
- Communications infrastructure
- Quality management
- Marketing skills
- Import/export expertise
- Access to capital
- Ability to make needed investments

C9. Need for Market Linkage Assistance

Directories of buyers. At the three workshops, we distributed directories of American and European herb buyers to assist Albanian companies in making direct contact with potential customers. A copy is included with this report. Also initiated during this visit was a program to collect information about Albanian companies to assist foreign buyers in finding them. The buyer directories will be sent to those companies providing information for the supplier directory. Another need is a guide through the process of preparing to do business directly with foreign companies and contacting potential business partners and customers. One difficult lesson for all new suppliers in this industry is to understand the high volume of contacts buyers receive. Many herb companies receive dozens of contacts each week from import/export companies and from farmers seeking to do business with them. It is not uncommon for most queries to go unanswered, and for those queries that are answered to be in the form of letters simply inviting the submission of samples and prices.

Dealers need concise guide on how to develop linkages. The ideal contacts are those mediated by an introduction by a trusted third party. In the development of our directory of buyers, many asked if a directory of suppliers could be developed as well, so they can identify new sources as needed. This was a major incentive for us to initiate such a program during this visit.

Directory of suppliers initiated. We developed a simple survey form that dealers can use to describe their company, products and contact information. The existence of the directory program should be announced through the media, through extension and government channels, through NGOs (for example Albflor) and in other ways to maximize the chance that dealers will know of the program and fill out the survey form. Once the directory is compiled, it can be distributed through the American Herbal Products Association, the American Spice Trade Association and posted on Internet sites among other distribution channels.

C10. Domestic Market Development Is a Priority

The domestic market for herbs in Albania is virtually untouched. This is a logical place to start with a market easy to access and few competitors. This is detailed under Recommendations.

C11. Dominant Market Niche: Low Price — Average Quality

One consistent observation of the current status of the Albanian herb industry is the unfortunate positioning of Albanian herbs as price competitors only. With the exception of sage, which is regarded as top quality, Albanian herbs have competed in the low price category. Numerous dealers reported that they were producing to specifications they know are not to the best quality, but they claim that buyers will not pay for better quality. One dealer reported that international buyers favor sources other than Albania, except when prices from other countries are too high. A strategy for breaking out of this market niche is in the Recommendations section.

D. Recommendations

D1. Quality Improvement

Research specifications from multiple sources. Dealers need to become more familiar with international standards and specifications, and with the basic scientific issues of the herbs they sell. They are at risk if their product falls short of the increasingly strict demands of the market. In most cases, dealers produced material as requested by buyers, but without contracts the buyers were not committed to purchasing. In those cases in which the buyers' specification was inconsistent with international standards, the material collected and currently stored in Albanian warehouses has no market.

Concentrate quality selection closer to source. Quality is affected most by the handling herbs receive directly after harvest. Post-harvest handling, drying and selection are the most critical factors in producing high quality botanicals. In many cases, herbs received by dealers are not fully dry or contain extraneous materials that must be removed to meet quality specifications. Drying and selection should be done as close as possible to the harvest areas and as soon as possible after harvest. This can best be achieved by shifting the processes of drying and selection to harvesters. While the required training can be a daunting obstacle, there is no other way in some cases, to improve quality. A poorly dried herb may have flavor, color, microbial or other defects that cannot be remedied by reconditioning at the dealer level. In addition to increasing the marketability of the herbs and their price potential, this can be a cost-effective strategy for dealers, and it increases rural income, which is one of the goals of developing the botanicals sector.

Develop multiple quality grades and pricing. There is one important way to shift away from the limited low-price, low-quality market niche without giving up current opportunities in this market. It involves developing a range of quality grades, with pricing appropriate to those grades. Those buyers who insist on purchasing only average-quality material at minimum price would still have access to such a grade of material, but in addition, there would be a premium quality grade available to those who will pay more for top quality. In this way, instead of believing that Albania produces average or lower quality herbs, buyers would come to understand that Albanian dealers know quality and offer several grades, including quality matching the best available anywhere. Creating the top quality grade involves some clear priorities, detailed below.

- Improve quality management and training at all levels
- Improve post harvest handling
- Concentrate on warehousing standards
- Develop and implement good manufacturing practices or adopt from appropriate foreign industries

D2. Trade Association

The botanicals business is complex and specialized. Albanian herb dealers need to develop a strong, effective trade association with the focused objective of promoting trade. Many of the issues identified during this visit can best be addressed by a cohesive industry working together. It is possible that Albflor could adjust its conservation-oriented mission to become this trade association, but it may be preferable to start with a group focused on business issues first, with leadership chosen by the dealers who form the association. As a first step, we recommend that APFDP and AAATA convene a national meeting of herb dealers and exporters to begin the process of organizing the botanical trade in Albania into a strong and growing business. Officials should be elected and committees established to conduct initial activities of the association. We recommend that this meeting be mediated by an advisor familiar with the establishment, development and function of an herb trade association. The following is a preliminary structure proposal for the association:

- Board of Directors
- Officers
- Proposed committee structure
- Standards
- Government Relations
- Public Relations
- Conservation
- Business development
- Sustainable finance

D3. Priority Species to Investigate for Promotion

The botanicals market is ever changing, volatile and for most botanicals, shallow. Overproduction of individual herbs can easily depress market prices and suppliers must be both cautious and flexible. Because of the market volatility, it is difficult to make any specific recommendations beyond the current season. However, there are some trends and market directions that will likely continue. One of the most promising opportunities for Albania in the botanicals sector is in providing sustainable sources of ingredients that are threatened or endangered, yet serve stable or growing markets.

Sustainable replacements for threatened herbs are:

- *Licorice root (Glycyrrhiza glabra).* The majority of licorice root in international commerce is used by the tobacco industry. The market is large and the plant listed as threatened. Cultivated or certified sustainable sources of licorice root represent a significant opportunity.

- *Gentian root (Gentiana lutea).* Gentian root is the major ingredient of bitters, including Campari, Angostura, Underberg and most others. It is endangered in the wild due to over-harvesting.

- *Orchid bulbs (Orchis spp).* Orchid bulbs are used to make salep, and are an essential ingredient in Turkish ice cream. This is perhaps the best opportunity for Albanian botanicals producers at this time. The market is strong, the value very high, and competition vanishing. The market could vanish too, without immediate action. The

World Wildlife Fund has recommended that the Turkish government change its requirement that ice cream contain this ingredient, because nearly all orchid species are endangered. The sustainable production of orchid bulbs should be the highest priority of the Albanian herb industry.

- *Arnica, Hydrastis, and others.* The WWF report at www.traffic.org/plants provides thorough documentation of plants that are threatened, endangered or otherwise at risk. Many of these are produced in Albania, or could be.

Strengthen core business — sage, thyme. Albanian sage has an excellent reputation. Our recommendation is that the producers diversify into premium quality sage while maintaining markets for less expensive qualities as well. Traffic.org also lists thyme as a plant at risk, though this is surprising given the ease with which it is cultivated. Albania has fields of thyme that are essentially abandoned, though harvesting continues on an informal basis.

Target durable trends. Market survey data, demographics and psychographic data all suggest that herbs for conditions of aging will continue to be popular. For example, herbs for prostate enlargement and menopause are among the best selling herbs, along with remedies for arthritis. A Gallup poll of American consumers showed that the public's leading health concern is their eyesight. One of the best herbs for protecting eyesight is bilberry (*Vaccinium myrtillus*), which is produced in Albania. Though the market growth for bilberry is weak currently, this ingredient has excellent potential and with appropriate promotion could become a leading botanical. Another important, lasting trend is the search for products that help people to cope with stress, anxiety and resulting sleep problems. This type of trend analysis can help the botanicals industry to anticipate future product categories with strong growth potential.

Avoid fad herbs unless quick to market. The American dietary supplement market has long been subject to fads that arise quickly and can disappear just as fast. This has been characterized as a "flavor of the month" syndrome, in which consumers continually pursue the next "hot" herb. Supplying these fad herbs can be a source of quick income, but only if producers can move into production very quickly and be ready to change to other crops as soon as the market shows signs of decline or oversupply.

Provide high quality replacements for problem herbs. Another trend to watch is quality crises. These occur periodically, and are sometimes quite persistent. It is possible to permanently gain control of a market simply by recognizing a quality problem and developing a quality source. An excellent example is gotu kola (*Centella asiatica*). Traditionally produced in India, the herb has had quality problems for many years. This opened opportunities for producers in Madagascar and even a market for fresh *Centella* leaves shipped by airfreight from Hawaii. One current quality problem reported by American herb buyers is with red clover (*Trifolium pratense*), which suffers from color and other quality problems due to poor drying practices. Red clover is being promoted as a remedy for perimenopausal symptoms, one of the fastest growing categories of herb products.

Organic sources where none are available. The demand for certified organic products is so great that even large multinational food companies are promising organic ingredients. One high-profile example is Gerber baby foods, which are to contain as many organic ingredients as are available and no genetically modified ingredients. Organic spices are a substantial market, and many of the core Albanian spices are grown without agrochemical inputs. Certification of these sources as organic could create a strong market advantage.

D4. Local Market Development

There is virtually no development effort currently directed toward the domestic herb market. Albanian spices are routinely exported to Greece and France, and then reimported in packaged form for use in Albania. Marketing Albanian herbs for local use should be a high priority. *Import substitution.* Though companies do not yet have the equipment they need to produce sophisticated herb and spice packaging, there are indications that the market does not demand this. The small herbal pharmacy “Salvia” reports that even when herbs are placed in plastic bags in printed boxes, many customers prefer to leave the box behind. Repackaging their products in less costly printed paper bags has proven acceptable to customers and their sales reportedly rising. In the spice market, too, simple packaging of Albanian herbs and spices have been acceptable to customers in the produce markets. Starting with a simple and minimally packaged spice line, Albanian companies could likely create sales adequate to secure financing for improved packaging equipment. Because of the cost of shipping, other import/export costs and profits for various intermediaries, it should be fairly simple to pursue a strategy of import substitution, competing with imported products made from Albanian herbs.

Fresh culinary herbs. Another opportunity is in fresh culinary herbs. Albania has a very active restaurant and hotel trade, and the use of fresh herbs in cooking is a leading international trend. Some simple and basic herbs are surprisingly absent from the local market. For example, Italian cuisine is ubiquitous in Albania, yet one of the most common fresh herbs in Italian food, basil leaf, is absent from and apparently unavailable to Italian restaurants and hotels in Albania. There is also a surprising lack of fresh herbs in the produce markets. Most groceries in the UNITED STATES and Europe carry a wide selection of fresh herbs for cooking at home. This, combined with the restaurant and hotel trade, has created a vibrant business in fresh herb production near urban areas.

Herbal teas. Packaged herbal teas are also imported from neighboring countries. The production of herbal teas is a fairly low-technology enterprise. Some of the world’s most successful tea companies started very small, without sophisticated packaging equipment. Again, after moderate success is achieved, it is possible to seek financing for the equipment to expand the business to meet local demands.

Syrups, salves and tinctures. Simple medicinal products for internal and external use can be made with very little capital investment. Herbal cough syrups, simple wound treatment and other first aid products, herbal insect repellents, skin care products and shelf-stable herb extracts (tinctures) are among the many possibilities.

Liqueurs and bitters. Imported bitters are popular in Albania, and could be easily made from local herbs. Since many villagers make both wine and Raki, the path to expansion into a viable business seems fairly uncomplicated.

Salep and other espresso bar specialties. Salep is already popular, and with some marketing, could become increasingly popular. Because the bar and restaurant business in Albania is so active, and espresso bar beverages so common, this area appears ripe for expansion. In the United States, espresso bar specialties are very popular, including both hot and cold beverages, and both with and without coffee. Teaccino, a tea-based cappuccino substitute, is a popular example

Personal care: cosmetics, toiletries, fragrance. Body care products are also uncomplicated to formulate and increasingly popular. Import substitution for these products can be accomplished on a number of different scales, from microenterprise to larger companies.

Traditional or folk medicines. The use of traditional medicines is growing in Albania, without the benefit of strong marketing efforts or significant public education. There is an opportunity to speed this trend and to produce locally, products for this market.

Phytomedicinals. European medicine integrates botanicals with synthetic remedies. In most categories, natural remedies are more popular than their synthetic counterparts. As these products begin to gain popularity in Albania, domestic substitutes can be produced with the competitive advantage of local production. Alternately, production and promotion of local brands of the leading European phytomedicinals can precede the entry of imported phytomedicinals into Albania.

D5. Public Education

Public education is essential. The herb market in the United States has grown almost exclusively because of publicity in specialty publications and mainstream media outlets. Beginning with magazine and newspaper stories, the public education effort spread to radio and finally television. The situation described by a group of pharmacists and physicians in Albania is similar to that in the United States around 20 years ago. The public considered herbal medicines to be a part of the past; physicians and pharmacists were not trained in their use and were skeptical of their benefits and safety. The public was convinced that pharmaceutical drugs were the highest form of modern medicine. Through a long process of correcting misperceptions and publicizing the history, research base, clinical use and international recognition of natural remedies, the population of those interested in and using herbal remedies increased very quickly. Pharmacists were soon selling these remedies and needed to learn more about them and physicians could not afford to ignore them because patients were asking their advice.

Revitalize herbal medicine. The phenomenal revival of herbal medicine in the United States was the result of public education, concern for and trust of nature and a belief that natural remedies are milder, safer and perhaps better than using chemical drugs.

Prepare and place newspaper and magazine articles. The beginning steps of a public education program are simple. Individuals, companies or the trade association can identify and retain writers to prepare and submit articles about the history, importance and scientifically substantiated benefits of key Albanian herbs. Public lectures and radio interviews can also be arranged. There is literally nothing that can better advance the use of medicinal herbs than positive publicity.

Begin recipe and spice promotion program. The American Spice Trade Association uses a substantial part of its budget to promote the increased use of spices. This is exactly the kind of activity that can expand the domestic spice market in Albania. In the workshops, we introduced this concept with simple examples. Both examples, rosemary lemon chicken and sage poached sea bass, use large amounts of herbs. The food sections of the world’s newspapers are filled with such recipes, as are women's magazines and cooking publications. The Albanian herb and spice industry should begin a concerted campaign to increase spice usage by teaching people how to prepare spice-rich dishes.

Distinguish between public education and company competition. In general, advertising should be used to increase a company's competitive position, while public education is used to increase overall market size. This can be a classic conflict, as companies must determine the best combination of advertising and education. The public education component is usually sponsored by market leaders or by the trade association.

Create editorial content for public education. The herb industry in the United States was built primarily by public education through magazines, newspaper and other media outlets. Typically a company or trade association hires free-lance authors to write positive articles about particular herbs and their properties. Since many magazines in the health area, as well as newspapers, are always looking for interesting content, the articles frequently are picked up and run in these media outlets. This creates positive publicity and generates interest in and sales of botanical products.

Use advertising primarily for company promotion. Advertising is expensive. Typically, companies will advertise only those products for which a market has been established or in cases in which the products have an exclusive place in the market. Once a market has been established for a particular botanical or class of botanicals, for example antioxidants or culinary herbs, companies can use advertising to promote unique aspects of their own product, such as better price or quality.

D6. Market Research and Marketing

Market research in the botanicals business is challenging, as most companies are privately held and hesitant to provide the business information producers need to make informed business decisions. Some important factors in market research and marketing for Albanian herbs are:

- Develop better information for decision making
- Use multiple information sources
- Improve market research and dissemination
- Begin tracking spice prices and trading volumes
- Develop medicinal herb market research
- Plan and conduct market survey
- Diversify product offerings
- Offer range of prices and qualities
- Work on national identity for Albanian herbs
    - Appealing market story
    - Build on international awareness
    - Highlight ancient trade routes
    - Romance and mystique
- Achieve and promote quality image

D7. Communications and Capacity Building

Throughout this report, we have emphasized the importance of improving quality and of producing for market demands. It is critical to build the capacity to communicate these needs and international standards to the villagers who collect botanicals or farmers who grow them.

Promote effective means of reaching harvesters. Dealers in Albania seem to have good lines of communication to the collectors and farmers who supply them. These existing communication channels can be strengthened with newsletters and other information releases that can be passed along by dealers to their collectors, harvesters and farmers. Again, this activity is the appropriate domain of a trade association.

Extend quality management to harvester level. As described earlier, it is important to move quality management closer to the source of the herbs. This requires training and capacity building at the village level.

Promote cultivation in rural areas. Stewardship of the dwindling botanical resource base in Albania is a critical need. In many cases, this will require shifting from wild-harvesting to cultivation for plants that cannot be harvested sustainably, including especially roots and barks.

Establish harvesters as sustainability monitors. Some herbs can be collected sustainably from the wild. Certifying sustainable production will require cooperation of government, industry and villagers to monitor plant populations and adjust collection accordingly.

Incorporate them into sustainability certification systems.

D8. Policy

Policy recommendations to the government of Albania are beyond the scope of this brief technical assistance mission. However, it is apparent that the policies concerning licensing and access to harvesting areas are complicated, with overlapping jurisdictions and inadequate enforcement. At this time it appears that the government's need for accurate information is greater than the economic value of license fees. We would recommend reducing any deterrent to licensing, including the fees, to gain better compliance and hence, better data. This could lead to a greater understanding of the scope, importance and operations within the natural products industry. Establishing better information systems in this sector would provide a service that would then make registration fees more palatable. Better enforcement of licenses is also essential. Without a more thorough analysis, we cannot draw sound conclusions, but Albanian dealers have no confidence in the government's ability to protect their rights as a licensee. The government must be able to guarantee that a license to collect in a certain area grants the licensee exclusive access to that area, and that enforcement procedures can protect that exclusivity. By offering clear and sensible procedures, effective enforcement, and providing information services such as the market research activities of the USDA, the government can work together with industry to increase the natural products sector and income-generating exports while making real gains in conservation goals.

D9. Conservation

Finally, conservation of the natural resource base is critical to the survival of this industry. With proper stewardship, the natural products industry can collect herbs sustainably from the forests and pastures in greater amounts without degrading the environment.

Research populations. It is imperative to research the plant populations in Albania and determine the most critical species and focus conservation efforts toward those plants. In general, high value and high demand products, especially root and bark products will be the most critical to conserve.
Research sustainability. Industry and government should work together to develop programs to make the harvest or cultivation of all profitable herbs sustainable. Because of the large number of plants listed as threatened or endangered in Europe, developing and marketing sustainability can produce a significant market advantage.

Develop certification of sustainability. It will be necessary to document that collection or cultivation is sustainable. Government, industry and non-governmental organizations can work together to create a meaningful sustainable certification process for the botanicals industry.

Cultivate and market endangered plants. As discussed in the Marketing section, sustainable collection or better yet, cultivation of endangered plants can help Albania to seize markets in these plants from other countries in which no such sustainability programs are being implemented.

E. Immediate Follow-Up

To reiterate some of the above recommendations, these are areas of immediate action that can be accomplished within the next year:

- Help establish trade association
- Organize initial awareness campaign (public education)
- Provide basic warehousing and GMP standards
- Provide access to available market information and prices
- Help to develop microenterprise as example

F. Summary

Albania has a significant opportunity to expand its botanicals industry, with benefits in terms of trade, conservation, rural employment and low cost health care. There are also substantial challenges to be met to achieve success in pursuing those opportunities. Quality training and management, improving policies and procedures, and environmental conservation are all critical issues. Market research, marketing and public education will be most important to building the trade, and a strong and active trade association is the best vehicle for organizing the industry to work on all of these important aspects of building a viable, sustainable and dynamic Albanian herb industry.

Appendix A

Workshop Slides

Mission

- Create and develop successful Albanian businesses in natural products
  - provide income
  - employment
  - development
- Environmentally and socially conscious
- Sustainable production
- Healthful natural products
- Local, regional and overseas markets

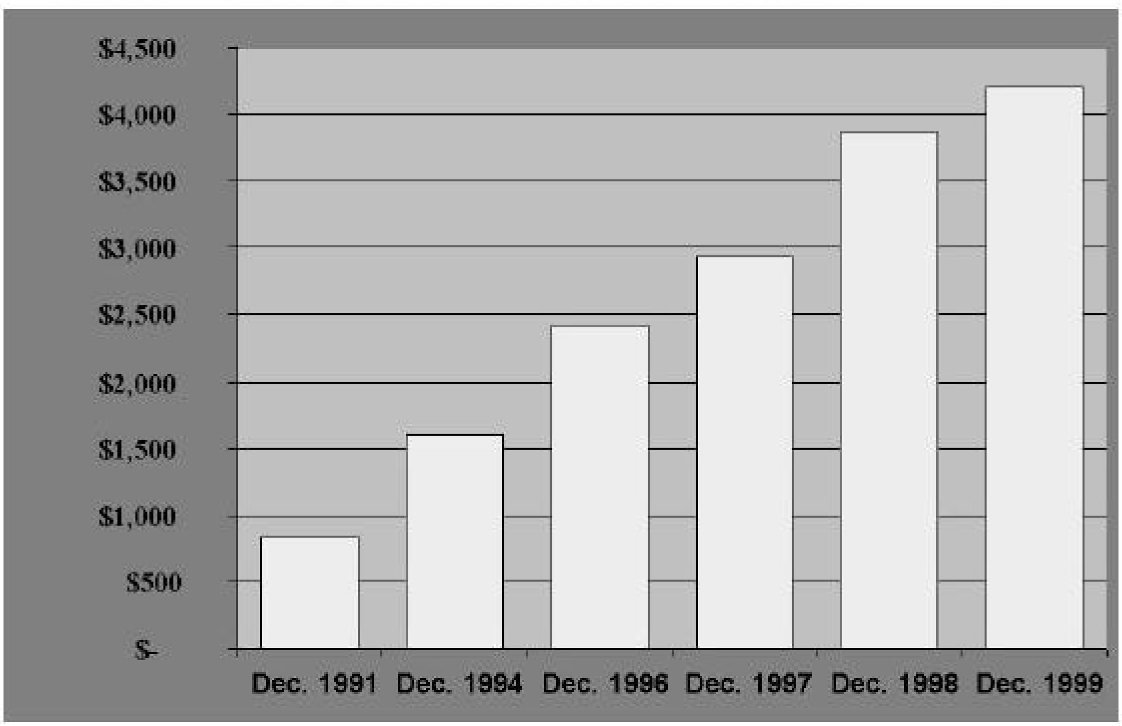
World Production and Trade

- Major producers
  - China and Thailand
  - India
  - Eastern Europe
  - Central and South America
  - North America
  - Africa

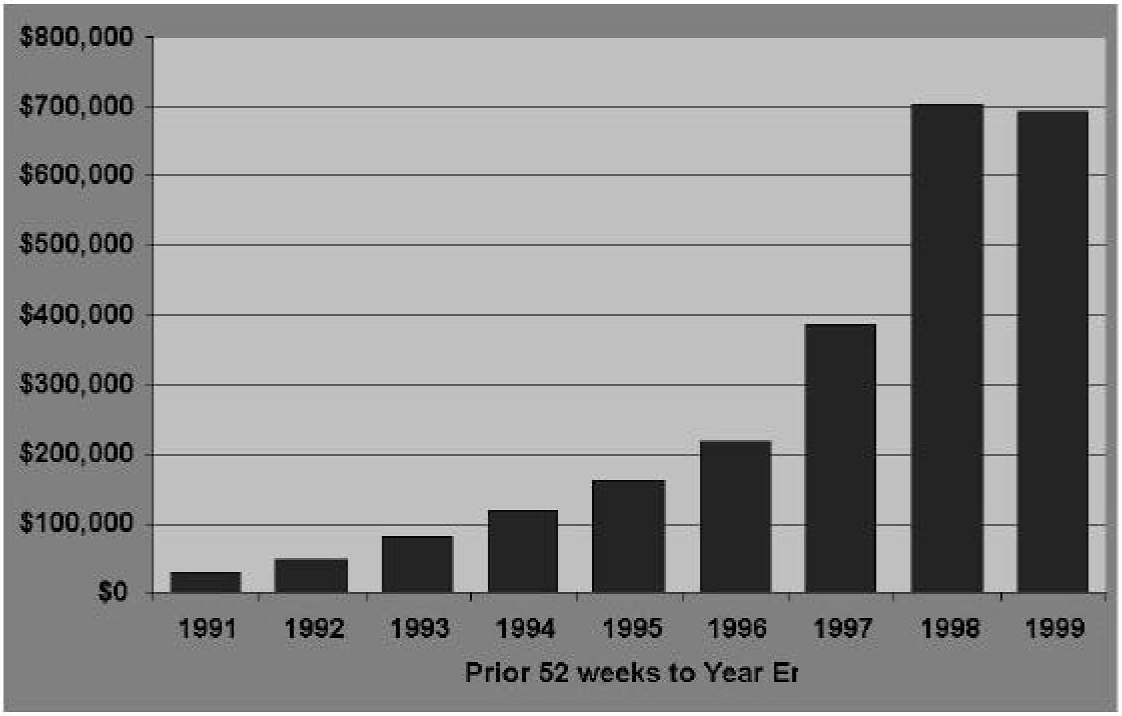
Profile of ingredient buyers

- Product manufacturers
  - Herbal tea
  - Supplements
  - Body care
  - Pharmaceuticals
  - Foods
- Extractors
- Processors
- Intermediaries
  - Traders
  - Brokers
  - Agents

Growth of U. S. Market for Botanical Medicine



Herbal Sales Mass Market 1991-99



Top Selling Herbs Mass Market- 1999

Herb	**Sales @ Retail M**	**% Change**
Ginkgo Biloba	$148,456	-2%
St. John's Wort	$105,759	-25%
Ginseng	$84,490	-13%
Garlic	$76.987	-9%
Echinacea	$71,399	-1%
Saw Palmetto	$44,470	**34%**
All Other Herbs	$38,970	**46%**
Kava Kava	$17,650	**2%**
Total Soy	$16,301	**1281%**
Valerian	$9,890	**4%**
Even. Primrose	$8,880	**8%**
Grape Seed	$8,169	**15%**
Milk Thistle	$7,539	**47%**
Bilberry	$6,408	-1%
Black Cohosh	$5,898	**157%**

Table 1: Herb Sales in Mainstream Market — Total 1998 vs. 1997

	1998 Ranking	1997 Ranking	Retail Sales 1998	Retail Sales 1997	Percent Change '97-98
Ginkgo	1	1	$150,859,328	$90,421,640	66.8%
St. John's Wort	2	5	$140,358,560	$48,446,328	189.7%
Ginseng	3	2	$95,871,544	$86,216,928	11.2%
Garlic	4	3	$84,054,520	$71,638,072	17.3%
Echinacea/Goldenseal	5	4	$69,702,144	$49,245,168	41.5%

Table 2: Herb Sales in Mainstream Market 1st 8 Months 1999 vs. 8 Months in 1998

Herb Studies	8 months 1999*	8 months 1998*	Dollar Sales % change/yr.	Clinical (estimated)
Ginkgo	$102,745,256	$109,299,184	(6.0%)	120
St. John's Wort	78,095,008	101,299,264	(23.3%)	30
Ginseng	60,158,456	71,247,472	(15.6%)	37
Garlic	54,661,276	24,539,204	(11.4%)	37
Echinacea/Goldenseal	44,594,288	44,678,772	(0.2%)	26 Echinacea; 0 goldenseal
Saw Palmetto	29,672,920	21,539,204	37.8%	18 *
Kava Kava	11,594,024	10,830,088	7.1%	7

US Food and Drug Administration
New Claims for Dietary Supplements

Examples of OTC Drug Claims Now Available to Dietary Supplements

- Antacid action
- Anti-gas action
- Digestive aid
- Anti-nausea
- Nigthtime sleep aid
- Stimulant (helps restore mental alertness or wakefulness when Experiencing fatigue or drowsiness)
- Stool softener
- Laxative, mild, short-term
- Weight loss claims (if obesity is not mentioned)

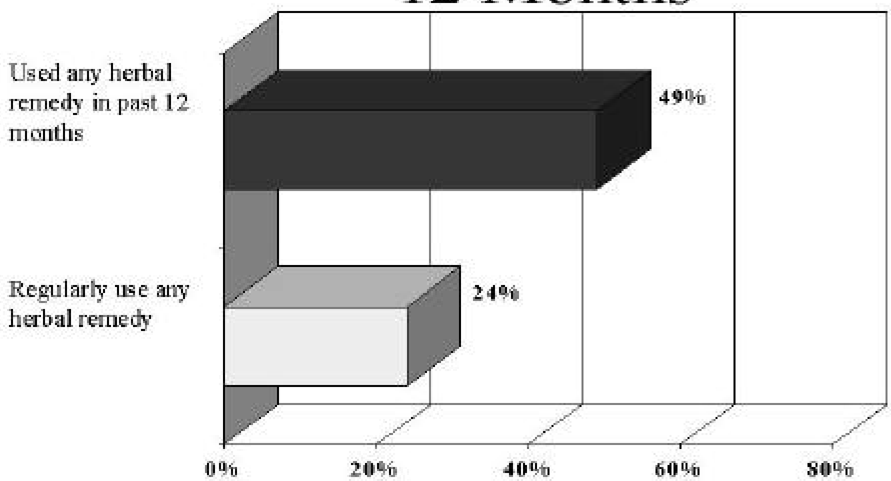
[FDA, 2000; Israelsen & Blumenthal, 2000]

Fundamental Driving Forces

- Aging Population
  - 76 Million "Boomers" and climbing
- Silent Revolution of Alternative Medicine
  - HMO Coverage of Alternative Therapies
- Changing Attitudes About Food and Health
  - 95% of U.S. Population Making the "Diet ⇔ Disease" Connection
- Increasing Scientific Evidence

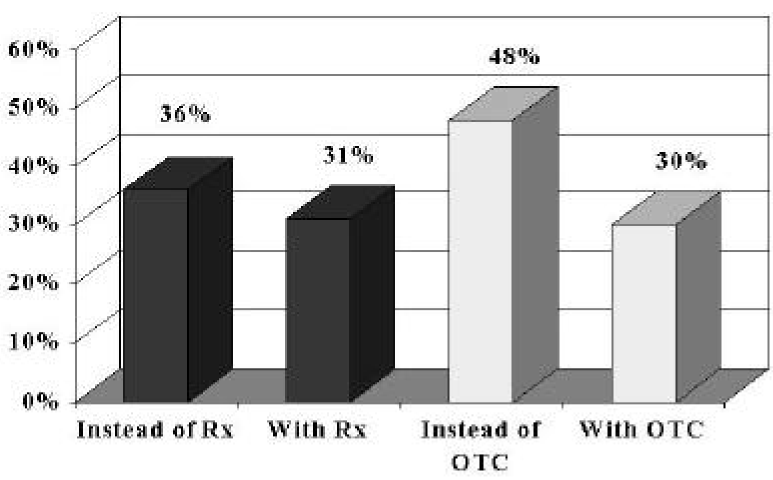
Source: *Nutrition Business Journal*, San Diego, CA

Used Herbal Remedies Regularly Or As Needed In Past 12 Months



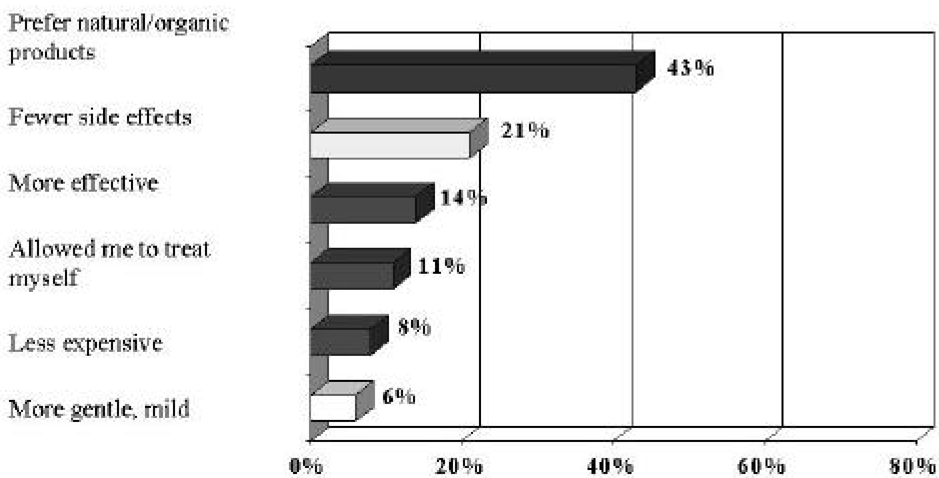
Source: Prevention magazine and Princeton Survey Research Associates

How Consumers Use Herbal Remedies



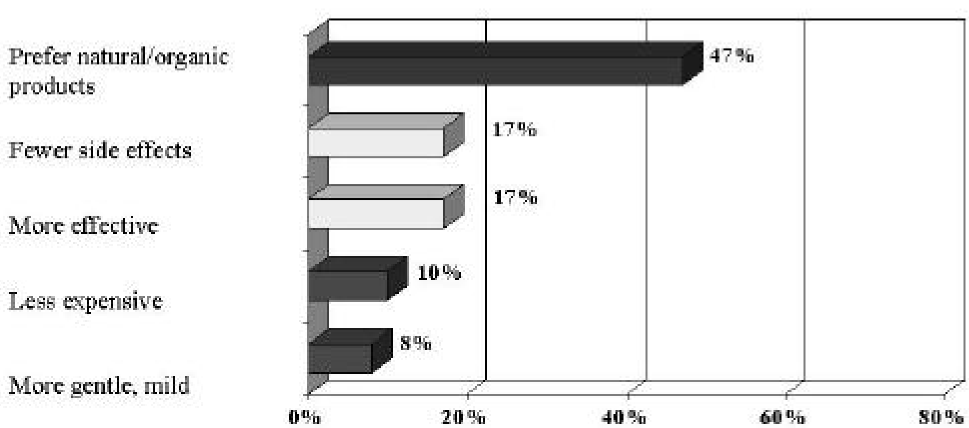
Source: Prevention magazine and Princeton Survey Research Associates

Reasons For Using Herbal Remedies Instead Of An Rx



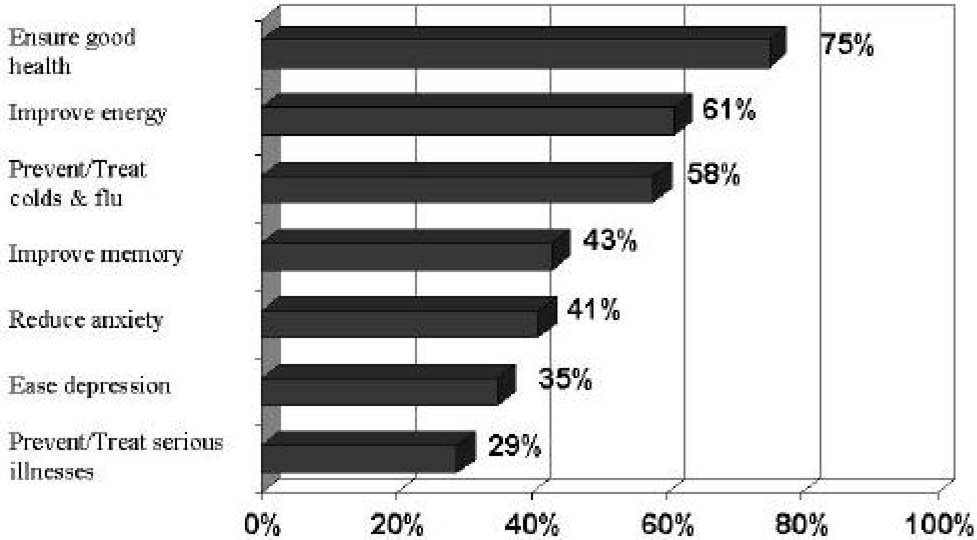
Source: Prevention magazine and Princeton Survey Research Associates

Reasons For Using Herbal Remedies Instead Of An OTC



Source: Prevention magazine and Princeton Survey Research Associates

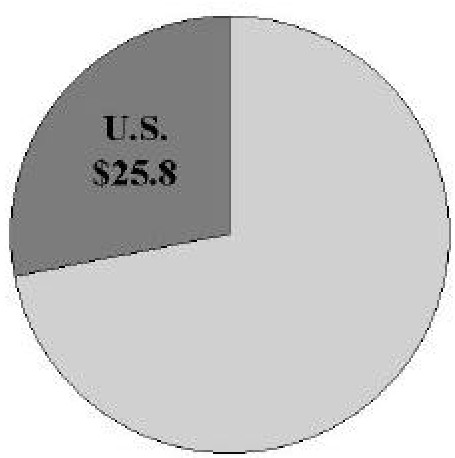
Common Reasons For Using Herbal Remedies



Source: Prevention magazine and Princeton Survey Research Associates

Global Industry Size and Structure

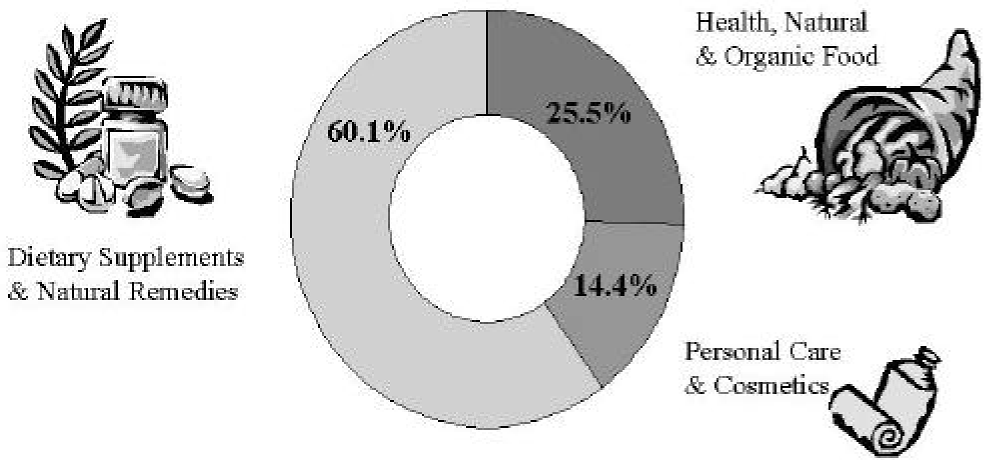
1998 GLOBAL NUTRITION INDUSTRY
$65 BILLION



A $65 Billion Global Market for Nutrition Products

GLOBAL NATURAL PRODUCTS MARKET

(% of 1997 Retail Sales by Category)

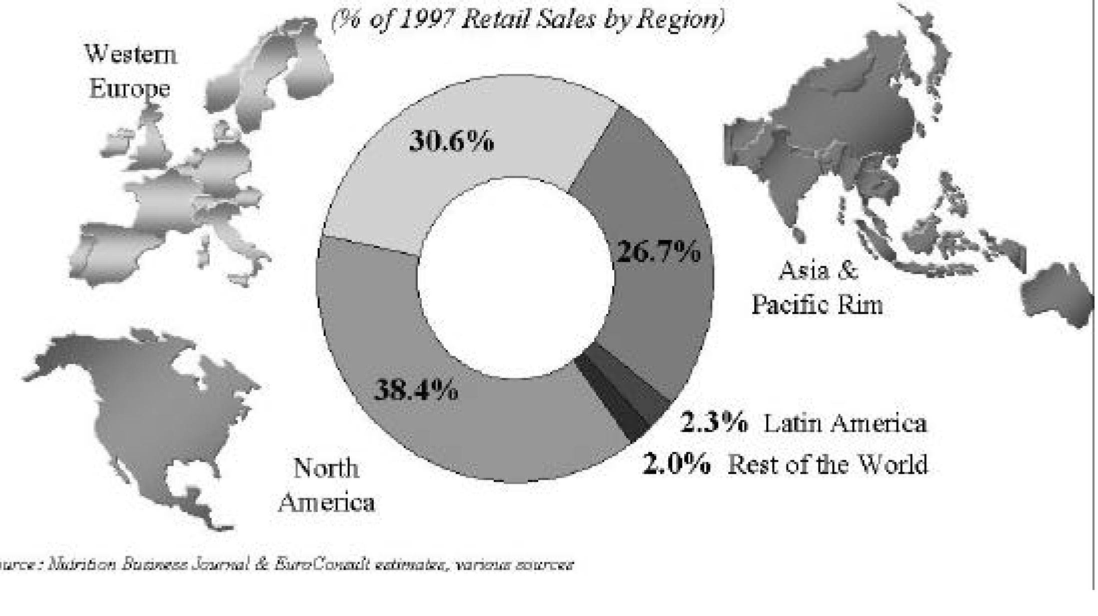


Source: Nutrition Business Journal (San Diego, Calif.) & EuroConsult est., various sources

Nutrition Product Sales Mainly in Developed Regions

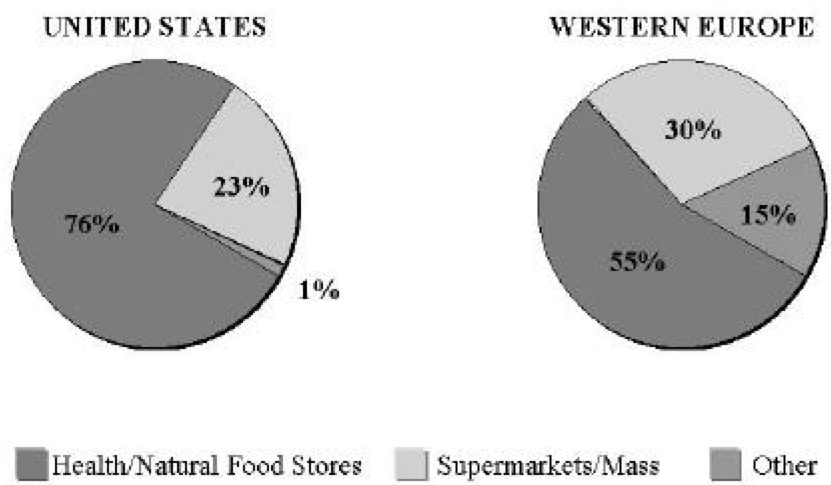
GLOBAL SALES OF NATURAL PRODUCTS

(% of 1997 Retail Sales by Region)



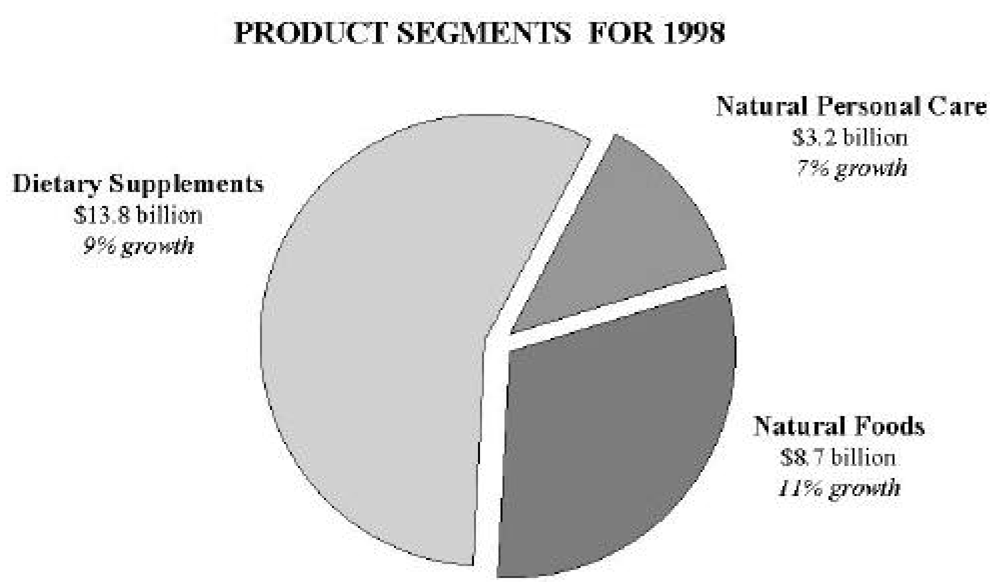
Source: Nutrition Business Journal & EuroConsult estimates, various sources

Health Food Stores Still Dominate, but Mass Market Channels Gaining Ground Rapidly



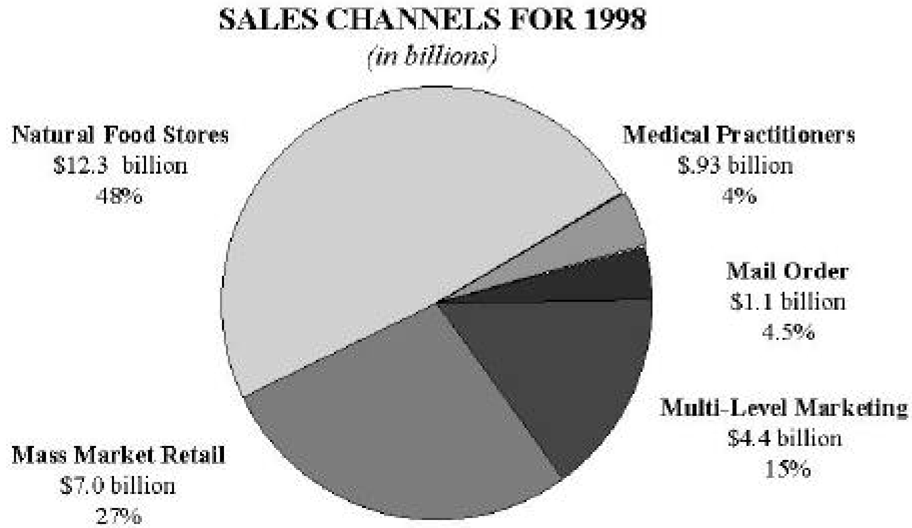
Source: Nutrition Business Journal & EuroConsult estimates, various sources

The $25.8 Billion U.S. Nutrition Industry



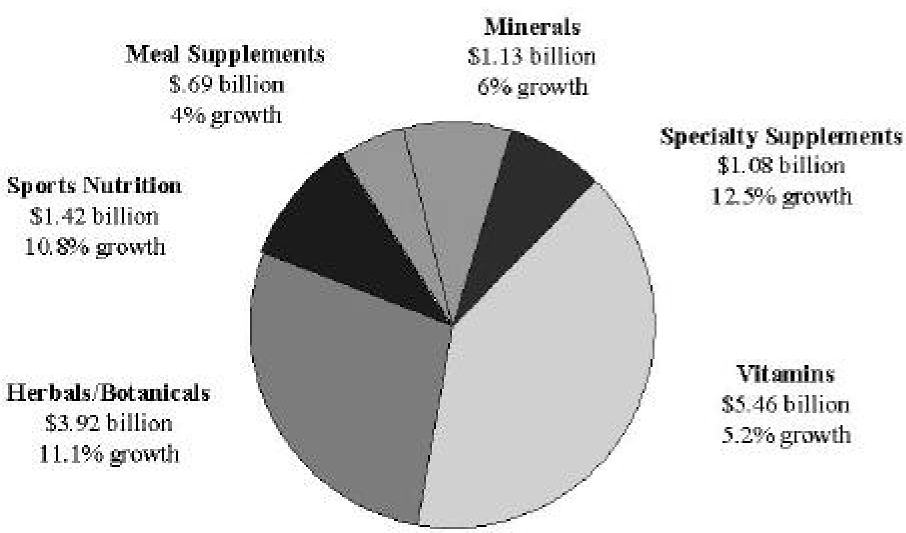
Source: *Nutrition Business Journal*, San Diego, CA

The $25.8 Billion U.S. Nutrition Industry



Source: Nutrition Business Journal, San Diego, CA

$13.9 Billion in Dietary Supplements



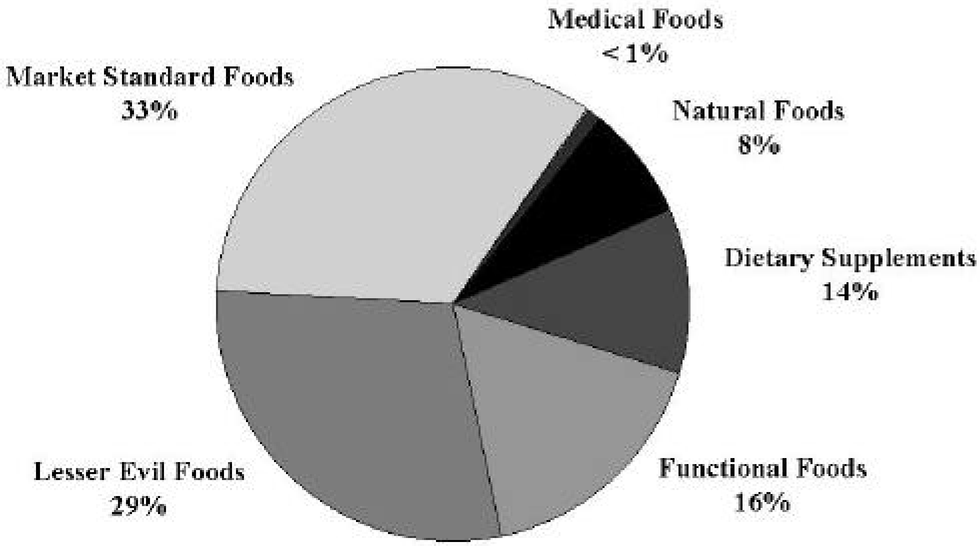
Source: Nutrition Business Journal, San Diego, CA

Nutrition Industry Segments Estimated Growth Rates

Segment	Last 3 Years	Next 3 Years
Natural Foods	8-12%	6-8%
Dietary Supplements	10-14%	7-9%
Herbs & Botanicals	14-20%	9-11%
Natural Personal Care	6-8%	8-10%

Source: *Nutrition Business Journal*, San Diego, CA

The $92 Billion U.S. Nutraceutical Market



Source: *Nutrition Business Journal*, San Diego, CA

Companies Entering Nutraceutical and Functional Food Business

- Food/Beverage/Packaged Goods Industry
  - Kellogg's, Unilever, Nabisco, Nestle, Campbell's, Numico (Dutch), Quaker Oats, Ocean Spray, ConAgra, P&G
  - Arizona, Sobe, Knudsen, Odwalla
- Pharmaceutical/Consumer Care
  - Novartis, J&J AHP, Bayer, Warner-Lambert, SKB
- Nutrition Companies
  - Omni, GNC, Nutraceuticals, Met-Rx

Source: Nutrition Business Journal, San Diego, CA

Companies Entering Nutraceutical and Functional Food Business

- Life Science Companies
  - Monsanto, Dupont
- Ingredient Companies
  - ADM, Cargill, Roche, BASF
- International Companies
  - Ajinomoto, SKW Trostberg, Chr. Hansen, Other Japanese Firms
- Smaller Niche ("Bio- tech") Players
  - Cooke-Pharma, Omega-Tech, Medical Foods, Martek

Source: Nutrition Business Journal, San Diego, CA

U.S.Botanical Market Trends-‘99

- Market:
  - Entry by major “big pharma” with resources
  - More company entries; inventory overstock
  - IRI statistics steady rather than growth
  - Business consolidation (merger and acquisition)
  - Competitive pricing and “commoditization”
  - Price considerations overriding quality
  - Industry looking for new “blockbuster”
  - Consolidation - mergers and acquisitions

U.S.Botanical Market Trends‘99

- Product development
  - Lack of herbal knowledge by major new players
  - Importance of future supply of raw material
  - Exploitation of indigenous peoples
  - Understanding synergy of whole plant or complex formula
  - Combination formula Vs. single herb product
  - Bioassay or other type of validation
  - Powdered herb vs. extract

U.S.Botanical Market Trends-'99

- Health Care
  - Increased usage and prescription by health practitioners
  - Increasing reimbursement by insurance and HMO
  - Development of clinical trials specific to botanicals
  - Interactions between herbs and pharmaceuticals

Increase in Usage
Complementary and Alternative Medicine

<u>Second Study by David Eisenberg, M.D.</u>
<u>1991 -1997</u>

- Visits to CAM provider exceeds visits to primary care by 243 Million
- Out-of-pocket expense estimated at $27 Bil. For CAM
- Herbal medicine usage increased from 3% to 12%
- Visits to CAM practitioners increased 47%
- Expenditures on services increased 45%

Strengths / Weaknesses

- Good supply chain
- Quality consciousness
- Experience
- Determination

- Communications
- Capitalization
- Facilities
- Contacts
- Marketing skills
- Language skills
- Entrepreneurial skills

Opportunities / Threats

- Growing industry
- Shrinking world
- Available assistance
- Good competitive position

- Complex market
- Sparse market data
- Environmental concerns
- Quality issues
- Established competition
- Market volatility

The challenge and opportunity

- Thousands of competitors
- How to stand out?
- Why buy from you?
- What advantages do you offer?
- What do you need to help you compete?
- What is your strategy to build business?
- Mission, Vision, Strategic Plan
- SWOT

Market Dynamics

- Shallow markets
- Volatile
- Fads dominate - ‘flavor of the month’
- Diversity is essential
- Watch for ‘durable trends’
- Beware of easily grown species
- ‘Fast, fluid, flexible’

Business Approaches

Commodity Driven

- What is available ?
- Where to get it ?
- When to collect it ?
- Where to sell it ?

Market Driven

- What does the market want ?
- Can we produce it ?
- How to compete ?
- What makes it more valuable ?

Business Scale

- Microenterprise and "cottage industry"
- Small Business
- Medium sized Business
- SMME focus of most donors
- Large business

What you do best

- Core competency
- Mission, vision, goals and objectives
- SWOT
- Strategic plan
- Business plan
- Marketing plan

Markets

- Domestic
  - fresh culinary herbs
    - restaurant
    - home use
  - import substitution
  - traditional medicines
  - herbal teas
  - body care
  - syrups, salves, insect repellent, veterinary, liqueurs

Markets

- Regional
  - Balkan, W. European
  - Compete through marketing
- Overseas
  - Quality orientation
  - Reliability
  - Value adding

Strategy

- idea
- market research
- concept testing
- product development
- test market
- marketing
- sales
- distribution
- costing and returns
- capitalize on every advantage
- build reputation
- out-compete your competition
- market better
- show success
- make realistic projections
- seek financing

Marketing Albania

- Albania has an appealing market story
- strengthen cultural identity
- ancient roots
- history in market
- important source
- European TM strong here and growing
- The heart of American herbalism
- high potential for new production
- close to markets
- concentrate on quality
- build reputation
- know your competitors

Market Research Strategies

- ask questions
- ask dealers, buyers
- validate information
- network with neighbors
- follow international trends
- establish links with resource people
- watch for market needs
  - shortages
  - quality problems
  - environmental problems
- geographic exclusivity
- new 'hot' herbs - but careful

For Each Herb

- where is it used ?
- who buys ?
- what are major producing countries ?
- what is your market advantage ?

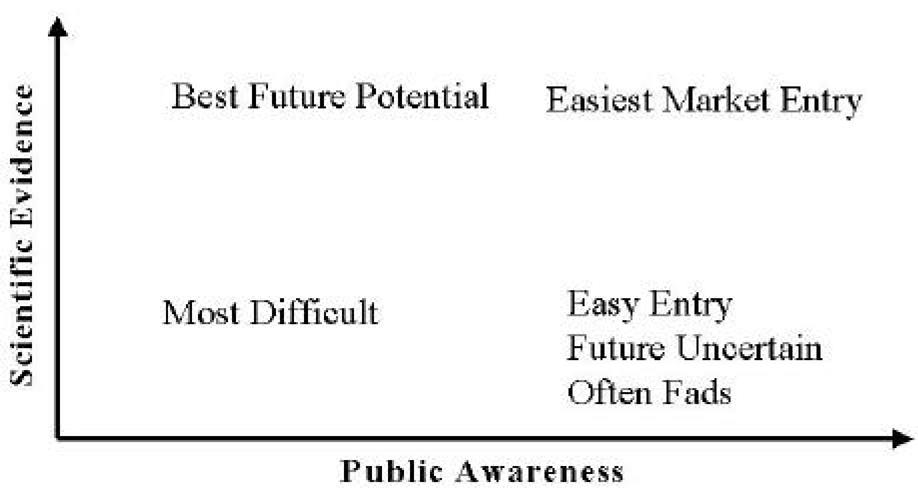
Adding Value

- Value-added processing
  - Milling, sifting, cleaning, extraction
  - Investment vs. return
  - Investing in people
  - 'Quality is Free'

Direct Exporting

- Warehousing
- Import / export regulations
- Insurance
- Ocean freight
- Assuming risk
- Access to capital
- Earning the trust of buyers

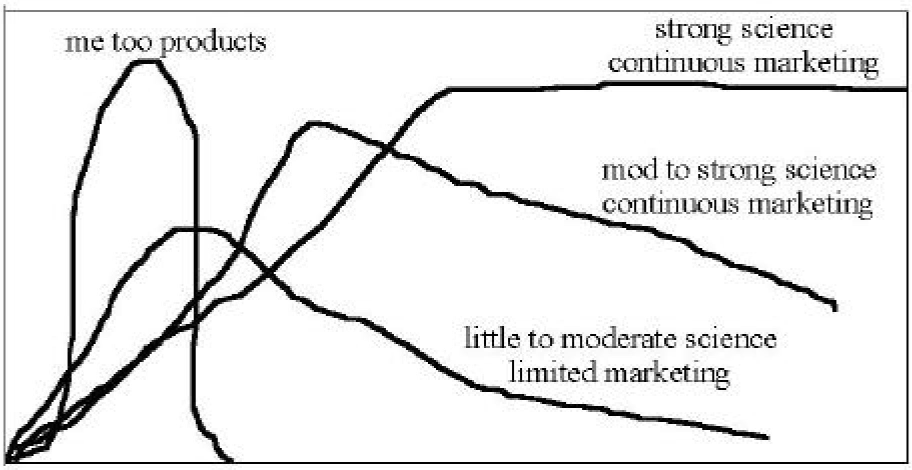
New Product Potential



Increasing awareness requires education, publicity
Increasing evidence requires research

Product Future Scenarios

PRODUCT LIFECYCLES



Source: SRI

Consumer education

- Advertising - expensive
- Editorial - inexpensive, effective
- Using the media to tell your story
  - US market development
  - Motivating the public
- Creative public education
  - Romance and Mystique
- ASTA example
  - recipe time

Microenterprise Example

- Tea in tea bags
- Blend herbs
- Use sewing machine to produce cotton bags
- Market
- Expand to hand sealed bags
- Chart growth
- Seek financing or remain small

Microenterprise examples

- Fresh culinary herbs
  - local markets
  - restaurants
- Tinctures
- Herbal medicine capsules
- Herbal oils - culinary or cosmetic
- Herb vinegars

Conclusions

- Market is expanding
- Growth has slowed
- Past trends continue
- New trends are promising
- Competition is tougher
- Consolidation has strengthened traders
- Communication has opened markets

Conclusions

- Market is more scientifically sophisticated
- Buyer specifications are stricter
  - Actives and markers
  - Moisture and oils
- Buyers want purity but do not want to pay
- Diverse buyers and marketers with different quality needs
- Not just one industry

HERB RESEARCH FOUNDATION

Improving world health and well being through herbs

www.herbs.org
info@herbs.org
rmccaleb@herbs.org
1 (303) 449-2265

APPENDIX G

Notes from A-SNAPP Roundtable in Cape Town, April 4-6, 2000

Factors identified by delegates as important in natural products development

Botanical and Agronomy research
Research in pharmacology skills
Development of research skills in partner companies
Training and literature
Information flow
Workshops
Processing skills
Integrity of technical and research groups
Access to facilities to try and test material
Test facilities
Issues around organic production
Development of local organic certification system
Advisory body to agricultural departments
Sourcing of genetic material
Economic viability
Links to micro finance
Business management training
Quality control
Product packaging
Product information, pricing
Product development
Marketing skills
Linkages for small growers
Project management skills
Management skills
Conflict resolving
Bargaining power
Communication
Networking
IT skills
Global, regional and market info
Linkages with buyer
Legal assistance
Language skills
Legislation
Trust and respect
Recognition of work
Reliability of research

Knowledge
Work ethics
Negotiation skills
Business orientation approach
Art of strategic planning
Trend analysis
Organizing skills

Groups identified by delegates as important partners to work with in Africa
Natural resource interest groups
Growers groups
People must be linked based on particular interest groups. Do not specify groups until product/project is known, it must stretch over countries, and must be as sensible as possible.
Community based organizations
NGOs working closely with communities
Universities and institutions working with different groups
Regional NGOs who are contractually committed through results
Scientists, legal people and quality assurance groups
National/sub-national networks which could be sectional/sub-sectoral networks
Extension departments
Medical research groupings
"Green" venture capitalist

APPENDIX H

Partial List of Contacts During The Visit and Mission Itinerary

Maureen A. DeCoursey, MFSc., Interim Social Forestry Advisor
Jim Seyler, Chief of Party, APFDP/Albania

April 18-19 in Korca:

Ilir Molla, Maliq
Luan Diko, Erseke
Ramazam Murrashi, Librazhd
Gjergji Cibuku, Korca District
Agron Jaupi, Maliq
Ismail Xhaja, Firma Xhaja Eksport-Import, Pogradec
Ylli Shehu Dealer, Elba-Shehu, Medicinal & Aromatic Plants, Elbason
Xhevdet Shehu, Director, Elba-Shehu, Medicinal & Aromatic Plants, Elbason

April 26-27 in Shkodër

Preng Cupi, Lezhe
Alfons Cico, Galen
Midush Sheba
Sherif Haxhiaj, Cultivates thyme
Pjeter Trashaj, Nursery
Xhemal Hasani
Shaqir Bajraktari

May 3-4 in Tirana

Ibrahim Miftari
Estref Haxhialushi
Claude Freeman, AAATA
Agron Hetoja
Tefta Demeti

Mission Itinerary

April 9-10	Travel days and arrival in Tirana
April 11-16	Meeting with APFDPA staff planning for workshops, market visits, visits with Salvia Company and others
April 17	Depart for Korca
April 18-19	Workshop in Korca

April 19, 20	Site visits and interviews with Korca area stakeholders (see Appendix)
April 22	Visit stakeholders in Pogradec, Librazhd, Erseke, and Elbasan
April 22	Return to Tirana
April 23-24	Planning for Shkoder workshop, meeting with Natasha Donolasnim
April 25	Travel to Shkoder
April 26-27	East Shkoder workshop
April 27-28	meetings with Shkoder area stakeholders
April 29-30	Travel to Lezhe, meeting with local dealers, return to Tirana
May 1-2	Meeting with chief of party, Jim Seyler, and others planning Tirana workshop
May 3-4	Tirana workshop
May 4	Debriefing meeting with donor coordination group, planning of next steps
May 5	Travel day, return to USA